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better pensions for homemakers

a report by the
national council of welfare

may 1984

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BETTER PENSIONS FOR HOMEMAKERS

A Report by the
National Council of Welfare

May 1984



Government
of Canada

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of Welfare

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FOREWORD

Pension reform is a complicated subject, even for the specialist. Canada's retirement income system is comprised of three major levels and, within each level, several elements - a foundation of federal and provincial income security programs; a second tier of public pension plans (the Canada Pension Plan and Quebec Pension Plan); and a third layer of private pension plans of varying design, Registered Retirement Savings Plans, and special tax provisions that encourage saving for retirement and lower taxes for the elderly. Most people have only a vague idea of how this complex system operates, let alone understand what is wrong with it and what can be done to set it right. Yet the outcome of the pension reform process will touch every Canadian who pays taxes, contributes to pension or savings plans, and reaches the age of retirement.

The National Council of Welfare has prepared a series of studies on the aged and the retirement income system. The reports are intended to provide the basic facts which the ordinary Canadian needs to understand and participate in the pension debate.

Financing the Canada Pension Plan explains how the Canada Pension Plan is financed and the use of surplus funds to provide loans to the provinces. It examines future demands on the CPP and proposes a move to pay-go funding and a gradual increase in contribution rates. Sixty-Five and Older looks at the past and future growth of Canada's aged population and charts trends in poverty and income statistics; the report also discusses shelter costs, subsidies and services, and the impact of income security programs for the aged.

The report that follows, Better Pensions for Homemakers, criticizes and offers an alternative to the proposal for a homemaker pension from the Canada and Quebec Pension Plans. A companion report, Pension Reform, reviews the three major routes to pension reform; discusses the package of pension proposals contained in the February 1984 federal Budget; and offers the National Council of Welfare's recommendations for long-term reform of the retirement income system. A Pension Primer is a layman's guide to Canada's retirement income system. It explains how that complex system operates and reveals its strengths and weaknesses.



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INTRODUCTION

Sixty percent of elderly single women in this country are poor. Most of these low-income pensioners are widows who spent a large part or all of their lives doing unpaid work in the home. Even if her husband is still alive, many an elderly homemaker has to get by on a substantially lower income than the couple had before retirement.

There is no question that homemakers need better retirement income. There is a question, however, about how best to provide it. Opinion is sharply divided on this issue.

A number of women's groups - prominent among them the National Action Committee on the Status of Women, a lobby representing 250 member organizations from across Canada - argue that the Canada and Quebec Pension Plans should provide a special pension for homemakers.¹ The Canada Pension Plan Advisory Committee also recommended a homemaker pension in a majority report issued in March of 1983.² The Parliamentary Task Force on Pension Reform included a detailed proposal for a CPP homemaker pension in its December 1983 report.³

On the other hand, the Chairperson and two other members of the Canada Pension Plan Advisory Committee dissented from their colleagues and argued against a special homemaker pension, as did one of the members of the Parliamentary Task Force on Pension Reform. The federal government's Green Paper on pension reform, released in December of 1982, opposed the idea of a homemaker pension.⁴ Other key actors in pension reform - organized labor, the business community, and the government of Ontario - are not in favor of a special pension for homemakers.⁵ Several women's organizations, including the Vancouver Status of Women, the Saskatchewan Coalition for Women's Pensions, the Saskatchewan Action Committee on the Status of Women, the Manitoba Advisory Council on the Status of Women and the Manitoba Action Committee on the Status of Women, do not advocate a homemaker pension for the Canada/Quebec Pension Plan. Neither do major social welfare organizations such as the Social Planning Council of Winnipeg, the National Anti-Poverty Organization and the Social Planning Council of Metropolitan Toronto.⁶

Ottawa's 'Action Plan for Pension Reform', announced in the February 1984 Budget, was neutral on the idea of a special pension for homemakers,

preferring to place it on the agenda of potential changes to the Canada and Quebec Pension Plans to be discussed with the provinces. The debate, then, is still on.

One thing should be made clear from the start: **Those who oppose a special homemaker pension do not oppose better pensions for homemakers.** What they object to is the means by which this end would be attained. They believe that the homemaker pension is a seriously flawed and inequitable proposal. They also believe there is a better way of improving homemakers' retirement income. The National Council of Welfare offers such an alternative in this report.

Whether their position on the issue is yes, no, or indifferent, most Canadians have only a vague notion of what a homemaker pension is, how it would operate, and whom it would benefit. This paper attempts to answer these questions.

THE HOMEMAKER PENSION PROPOSAL

Although several homemaker pension schemes have been suggested in recent years, we focus on the recommendation of the Parliamentary Task Force on Pension Reform. Their detailed proposal sought to overcome the weaknesses of earlier designs and has been endorsed by homemaker pension advocates. Before we examine the Task Force homemaker pension, however, we must briefly review the position of homemakers in the existing pension system.

Homemakers and the Retirement Income System

Canada has a three-level retirement income system. The foundation is provided by federal income security programs - the Old Age Security, Guaranteed Income Supplement and Spouse's Allowance - and various income supplements for the elderly offered by six of the ten provinces and by the territories. The Canada and Quebec Pension Plans, which cover every Canadian in the paid labor force, constitute the second tier. The third level is comprised of employer-sponsored private pension plans and personal retirement savings plans, as well as tax concessions which reward contributors to such plans and reduce income taxes paid by the aged.

Women who work in the home ('homemakers'), and other Canadians who have no earnings, are for the most part excluded from the second and third levels of the retirement income system. They cannot join an employer-sponsored private pension plan because they do not have an employer who pays them wages. While a homemaker is allowed to take out a Registered Retirement Savings Plan in her own name, her husband (the earner) makes the contributions on her behalf. In any case, RRSP membership is confined to an affluent minority of Canadians (most of them men) who can afford to put money aside for their retirement, especially since the government rewards their thrift by providing generous income tax deductions.

Every man and woman who receives earnings from employment - whether an employee or self-employed - contributes to the Canada or Quebec Pension Plan and so builds up pension credits on which his or her retirement pension will be based; employers must match their employees' contributions. However homemakers' work is unpaid, and so they cannot participate in the Canada or Quebec Pension Plan as workers. Homemakers' exclusion from the C/QPP shows up in the statistics, which indicate that 91 percent of men and 63 percent of women aged 20-64 contributed to the CPP in 1981. The gap between the sexes is even wider among older Canadians; 82 percent of men aged 50-64 participate in the CPP, as opposed to only 42 percent of women in that age category. Many women in this older age group have spent most or all of their working life as homemakers.

Homemakers do benefit from private pension plans and the Canada/Quebec Pension Plan, but as dependents rather than participants. If her spouse has a private pension plan (unfortunately most do not), a homemaker shares in his retirement benefit in the same way that she shared his earnings before retirement, though she does not have a private pension of her own. If her spouse dies, she may receive a survivor benefit, though then again she may not because many private pension plans do not provide survivor benefits.

Homemakers are eligible for Canada/Quebec Pension Plan survivor and death benefits if their spouse dies and, if the marriage breaks up, half the C/QPP credits accumulated during the course of the marriage. They can drop years spent caring for children under seven from the calculation of the lifetime earnings on which their C/QPP retirement pension is based, provided of course they worked in the paid labor force at some point in their career. However they cannot look forward to a C/QPP pension of their own in recognition of their unpaid work as homemakers.

Homemakers receive Old Age Security benefits when they reach 65 and are eligible for the income-tested Spouse's Allowance at 60 and the Guaranteed Income Supplement at 65. Despite improvements in benefits paid by these programs (especially the Guaranteed Income Supplement, which has been raised

several times since it began in 1966), federal and provincial income security benefits still do not guarantee an adequate income for the single elderly, many of whom are widowed homemakers. Few homemakers can count on substantial survivor benefits from private pensions and the C/QPP, or much retirement income from RRSPs and other savings. As a result, many homemakers end up poor in their old age; at last count (1982), six in ten unattached women 65 and over - most of them widows - lived below the poverty line.

The logical step, then, would seem to be to extend the Canada/Quebec Pension Plan to cover homemakers as workers.

The Task Force Proposal for a Homemaker Pension⁷

Before we review the Parliamentary Task Force proposal for a homemaker pension, we must briefly remind readers of how the Canada/Quebec Pension Plan operates.

Everyone in the paid labor force belongs to either the Canada Pension Plan or the Quebec Pension Plan. Employees must contribute 1.8 percent of their earnings between what is known as the 'year's basic exemption' or YBE (\$2,000 in 1984) and the 'year's maximum pensionable earnings' or YMPE (\$20,800); their employers match this amount. The self-employed pay 3.6 percent of their contributory earnings. The maximum contribution for 1984 is \$338 for an employee and \$677 for someone who is self-employed.

The C/QPP retirement benefit is calculated as 25 percent of average lifetime pensionable earnings. The maximum retirement pension - \$387.50 this year - is 25 percent of the average of maximum pensionable earnings for the current and the two previous years. The February 1984 budget proposed that the year's maximum pensionable earnings be increased to the level of the average industrial wage by 1987; if the YMPE already equalled the average industrial wage (\$22,800), the maximum CPP retirement benefit would be \$450 a month.

The first question that the homemaker pension must address is who is a homemaker. The Task Force proposal defines homemakers as "those who, in any

year, work only or mainly in the home to care for a spouse, a child under 18, or a dependent and infirm adult relative living in the home".⁸ Usually, but not always, the homemaker is a woman.

Homemakers are not paid for their work, so the next problem is to figure out what level of earnings they would be assumed to get in return for their services, and upon which their pension contributions and benefits would be based. The Task Force proposal assumes that a homemaker with no labor force earnings has half the year's maximum pensionable earnings (\$10,400 in 1984). She would accumulate homemaker pension credits based on this level of deemed earnings for each year she worked as an unpaid homemaker. If the Task Force proposal were already fully implemented, an elderly woman who spent her whole career as a homemaker would receive the same retirement pension as a paid worker who earned half the YMPE (\$10,400 in 1984) - \$194 a month, which is half the maximum retirement benefit from the C/QPP.

However the Task Force proposal is not restricted to full-time homemakers. Homemakers who work in the paid labor force but earn less than half the year's maximum pensionable earnings (i.e., under \$10,400 in 1984) would have their regular C/QPP pension credit 'topped up' to bring it to half the YMPE. Thus their regular retirement pension and homemaker pension top-up would total \$194 a month, the same as for a homemaker with no earnings.

However those who earn more than half the year's maximum pensionable earnings (i.e., over \$10,400 in 1984) would not be eligible for a homemaker pension. Their C/QPP retirement pension would be larger than the homemaker pension because they earned more than the deemed earnings level on which the homemaker pension is based. For example, a woman who earned on average three-quarters of the YMPE (\$15,600 in 1984) would receive a C/QPP retirement pension of \$291 a month, compared to \$194 for a homemaker with no earnings.

Families that got the homemaker pension would pay for it through extra C/QPP contributions. They would pay both the employer's and employee's share, which under the Task Force proposal would come to 3.9 percent of the accrued

homemaker pension (more precisely, 3.9 percent of the difference between \$10,400 and the year's basic exemption of \$2,000). This rate would work out to a contribution of \$328 in 1984, over and above the regular C/QPP contributions on behalf of family members in the paid labor force.

Families in which the non-homemaker spouse earned more than half the YMPE (\$10,400 or more) would pay the full 3.9 percent contribution for their homemaker pension. If the spouse with the higher earnings made between half the YMPE and the full YMPE (from \$10,400 to \$20,800), the couple would pay a fraction of the full contribution rate. For example, if the non-homemaker spouse earned three-quarters of the YMPE (\$15,600), the family would pay half the full homemaker pension contribution - \$164 in 1984. Single parents, adults caring for dependent and infirm adult relatives living in the home, and couples where neither spouse earned above half the YMPE would be exempt from homemaker pension contributions.

Once the Canada/Quebec Pension Plan is 'mature' - i.e., when the year's maximum pensionable earnings reaches the average industrial wage (the figures are \$20,800 and \$22,800 this year, respectively) - then the homemaker pension will be based on what amounts to half the average wage (\$11,400 instead of \$10,400). The federal government has proposed that the YMPE be increased to the average wage by 1987. Since the term 'year's maximum pensionable earnings' (YMPE) is unfamiliar to most readers, in the rest of the report we will replace it with 'average industrial wage' (or 'average earnings', for short) and assume the C/QPP is already mature.⁹

The Task Force report made another recommendation which, though not part of the homemaker pension proposal, is important and will come up later in our discussion. The Task Force endorsed the Green Paper's proposal that C/QPP pension credits earned during the course of a marriage be divided equally between spouses when the younger spouse turns 65 or when either spouse dies; the Task Force also recommended that credit-splitting upon marriage breakdown be automatic rather than upon application, as is now the case. The federal government also has accepted the general credit-splitting proposal and plans to amend the Canada Pension Plan accordingly after obtaining provincial approval.

The Case for a Homemaker Pension

Supporters of a C/QPP homemaker pension claim that this reform would give homemakers a retirement pension in their own right and would reduce their financial dependence on their spouse. A homemaker pension would improve homemakers' retirement income, especially those with little money other than Old Age Security and the Guaranteed Income Supplement. The homemaker pension designed by the Task Force would provide subsidized pensions to homemakers who are single parents - a rapidly growing group, given the rising rate of marriage breakdown and increasing number of unwed mothers - to homemakers who work in the paid labor force but earn less than half the average industrial wage, and to full-time homemakers whose spouse makes less than average earnings.

Under the Task Force proposals, an elderly widowed spouse would receive a C/QPP survivor benefit of 30 percent of the deceased contributor's retirement pension after credit-splitting. She (or he) also would get half the couple's C/QPP retirement benefits (which include the homemaker pension) thanks to the credit-splitting proposal. All in all, an elderly survivor would end up with 65 percent of the couple's C/QPP retirement benefits (30 percent of half, plus another half).

Task Force supporters see this approach as more equitable than the federal Green Paper's recommended combination of credit-splitting, a more generous survivor benefit (60 percent of the deceased spouse's retirement pension after credit-splitting) and no homemaker pension, which would result in a widow's receiving 80 percent of the C/QPP benefits coming into the household before the spouse's death (60 percent of half, plus half). Survivor benefits, like retirement pensions, are based on earnings and so pay higher amounts to widows whose husbands had higher earnings. Yet single and divorced C/QPP contributors (many of them lower-income women) help pay for survivor benefits, even though they cannot receive them. By contrast, the Task Force approach advocates smaller survivor benefits coupled with a homemaker pension; the latter would be paid for directly by the families which received it.

The key rationale for extending the Canada/Quebec Pension Plan to homemakers is to recognize the work they perform. In the words of the Parliamentary Task Force: "women who run a household - care for children, husbands and other relatives - do work that has real economic value. The work of homemakers has been ignored for too long; they deserve pensions in their own right".¹⁰

Advocates of a homemaker pension argue that homemakers "do real work for which there exists fully paid and pensioned counterparts in the labor market".¹¹ They point to studies which claim that homemakers put in an average 50 hour work week, ranging from 40 hours for childless homemakers to 61 hours for those caring for four to six children. Not only do homemakers work longer hours than employees in the paid labor force, according to this line of reasoning, but they also are denied the normal work-related benefits such as statutory holidays, vacations, and a pension - not to mention wages.

THE CASE AGAINST A HOMEMAKER PENSION - AND FOR A MORE POWERFUL CANADA/QUEBEC PENSION PLAN

Responsible criticism should offer a better alternative. In reviewing the major criticisms of the homemaker pension, we have found it useful to contrast the Task Force proposals with our own recommendations for pension reform. The National Council of Welfare's key proposal is a 50 percent increase in the earnings-replacement capacity of the Canada/Quebec Pension Plan, to replace 37.5 percent (rather than the existing 25 percent) of earnings up to the average industrial wage.

What Is a Pension?

Canadians use the term 'pension' in several ways, each corresponding to a different part of the retirement income system. We must get these meanings straight in order to understand some of the main arguments against the homemaker pension proposal.

The Old Age Security program, popularly known as 'the old age pension', is the foundation of Canada's retirement income system. Old Age Security is a universal, flat-rate income security benefit: Everyone aged 65 and older gets the same monthly payment (currently \$266.28) regardless of his or her other income, marital status, past or present earnings, or work history. The prime purpose of the program is to ensure a basic floor of income for all elderly Canadians.

A second federal income security program, the Guaranteed Income Supplement (\$267.33 a month), serves the lower-income aged. Together the OAS and GIS are intended to provide an income guarantee for Canada's elderly. Both benefits are financed out of general revenues, the bulk of which come from income taxes.

Most people demand more than a minimal level of income security in their old age: They also want to replace enough of the income they had during

their working years to maintain a reasonable standard of living when they retire. The Canada/Quebec Pension Plan and private pension plans, although they differ in design and benefits, are both intended to replace a portion of earnings from employment, the major source of income for most Canadians. The C/QPP and private pension plans, then, are pensions in the true sense of the word - mechanisms to replace employment earnings when workers retire - whereas 'the old age pension' (Old Age Security) is properly termed an income security program rather than a pension plan.

Both retirement benefits and contributions are related to earnings under the C/QPP. An employee whose average lifetime earnings are half the average industrial wage will retire with a C/QPP pension that is half the maximum payment. Someone earning three-quarters the average wage will receive a retirement benefit equal to three-quarters the maximum C/QPP retirement payment. The C/QPP is earnings-related only up to the average industrial wage; employees or self-employed persons whose career earnings are average or above will receive the same maximum C/QPP pension, which means that the C/QPP replaces a lower percentage of earnings as the latter increase.

The Canada/Quebec Pension Plan's limited income-replacement capacity - one-quarter of earnings up to the average wage - is deliberate. Private pension and retirement savings plans are supposed to make up the difference though, as we argue in A Pension Primer, they fail to do so for most pensioners.

C/QPP contributions are also related to earnings. An employee pays 1.8 percent of contributory earnings, which means that those earning half the year's maximum pensionable earnings pay \$169 in 1984, those earning three-quarters the YMPE pay \$272, and those earning the year's maximum pensionable earnings or more pay the maximum \$374 contribution.

Since the C/QPP's purpose is to replace employment earnings which end upon retirement, it does not take into account other forms of money income (such as government transfer payments and interest) and income in kind such as volunteer services and homemaker services. These other sources of income do not

depend upon their recipients' holding jobs in the paid labor force, normally do not cease when they retire, and therefore do not have to be replaced by a pension.

Critics of the homemaker pension argue that it is not a pension in the C/QPP's and private pension plans' sense of the word. Homemaker services have real economic value, no doubt, but they do not normally cease when the homemaker turns 65 in the way that earnings end when a worker retires. The notion of replacing income (i.e., homemaker services) that the family continues to receive, and the homemaker still provides, just does not make sense. The homemaker pension ignores the fundamental issue of whether and how homemakers should be paid for their services and instead pretends they had earnings before the age of 65.

In fact **the homemaker pension is not really a pension at all**, but rather an extra income security benefit for full-time homemakers with no or low earnings. More accurately, **the homemaker pension is an additional income security benefit for families with homemakers**, since C/QPP benefits - homemakers pensions included - would be shared equally between spouses under the Task Force proposals. The question then arises as to why the Canada/Quebec Pension Plan, rather than an income security program such as Old Age Security, should be used to provide additional transfer payments to families with homemakers. Better still, why not tackle the issue of homemaker wages directly, rather than after the fact with an 'as-if-they-were-paid' pension?

Who is a Homemaker?

The Parliamentary Task Force defines a homemaker as a person "who, in any year, works only or mainly in the home to care for a spouse, a child under 18, or a dependent and infirm adult relative living in the home".¹² A full-time homemaker's services would be valued at half the average wage, or \$11,400 in 1984. Homemakers who work in the paid labor force but earn less than half the average wage would have their pension earnings base 'topped up' by the homemaker pension to bring it to half the average wage; apparently their homemaker services are worth less than a full-time homemaker's. This concept of homemaker services, so central to the proposal for a homemaker pension, creates a number of difficulties.

The homemaker pension does not discriminate among different kinds of services provided by women who work in the home. Surely the unpaid work performed by a mother with several children or a woman caring for a severely disabled adult is more taxing than the homemaker services provided by a wife who keeps house but has no children to care for. Yet if her husband has a high enough income, the childless homemaker could hire a housekeeper and still qualify for the full homemaker pension.

If, as its supporters contend, the purpose of the homemaker pension is to recognize the economic value of the work done by homemakers, why should homemaker services provided by those who do **not** fit the Task Force definition go unrecognized? The majority of married women and single mothers work in the paid labor force during the day and perform homemaker tasks at night and on weekends. However, unless they earn less than half the average wage - most make more than that - they would not qualify for a homemaker pension. Husbands and children also perform homemaker tasks, but the homemaker pension proposal certainly would not include them.

Even if we swallow the homemaker pension argument that women with paid jobs devote only half as much time to household tasks - apparently their families "buy more ready-made products, labor-saving devices and maid services" and get somewhat more help from their husbands and children than 'real' homemakers - it does not follow that their homemaker services should have no deemed value just because they do not work full-time in the home or have the misfortune to earn more than half the average wage.¹³ Try telling a woman who - gets up at 5:30 in the morning to feed and change her baby, prepares breakfast, gets her older child dressed, takes the baby to the babysitter and her other child to daycare, works from 8:00 to 4:00 for \$5.50 an hour, picks up the kids and returns home to prepare supper, does some housework and puts the children to bed - that her homemaker services do not merit a pension, whereas those provided by a full-time homemaker or low wage earner do. Single mothers, who carry the breadwinner and homemaker burdens alone, would be particularly incensed by the Task Force's peculiar logic about who is a homemaker and who is not.¹⁴

Table A illustrates the effects of the homemaker pension proposal for different types of family units at three different earnings levels - half the

average wage (an estimated \$11,400 in 1984), three-quarters of the average wage (\$17,100) and the average industrial wage (\$22,800). We show the deemed value of homemaker services and the amount of homemaker pension payable based on deemed earnings. The picture is peculiar indeed.

Table A
Homemaker Pension, by
Family Type and Earnings

Pre-Retirement Earnings	Deemed Value of Homemaker Services	Homemaker Pension
<u>$\frac{1}{2}$ average (\$11,400)</u>		
1. single person	\$ 0	\$ 0
2. 2-earner couple	11,400	2,700
3. 1-earner couple	11,400	2,700
<u>$\frac{3}{4}$ average (\$17,100)</u>		
1. single person	0	0
2. 2-earner couple	\$ 5,700	\$1,350
3. 1-earner couple	11,400	2,700
<u>average (\$22,800)</u>		
1. single person	\$ 0	\$ 0
2. 2-earner couple ($\frac{1}{2}, \frac{1}{2}$)	0	0
3. 2-earner couple ($\frac{1}{2}, \frac{3}{4}$)	5,700	1,350
4. 1-earner couple	11,400	2,700

Single persons would get nothing from the homemaker pension because they have no dependents and so are not homemakers according to the Task Force

definition - even if they are not in the paid labor force or earn less than half the average wage. One-earner couples with a full-time homemaker are the clear winners; whether the non-homemaker spouse is a minimum wage worker or a millionaire, his or her spouse would receive the same maximum homemaker pension of \$2,700 based on homemaker services valued at \$11,400.

The homemaker pension is capricious in its treatment of couples where both spouses work in the paid labor force. Low-income couples in which each spouse earns one-quarter the average wage would get the maximum homemaker pension because **each** would qualify for a 'top-up' to bring his or her pensionable earnings up to half the average wage; the sum of their 'top-ups' equals the maximum homemaker pension. One spouse in the couple whose joint earnings are three-quarters the average wage earns one-quarter and so would get a homemaker pension supplement of \$1,350, and his or her deemed homemaker services would be 'worth' \$5,700.

The effects of the Task Force proposal are very strange once we reach the level of the average industrial wage. If each spouse earned half the average wage, the couple would get nothing from the homemaker pension. However, if one spouse earned one-quarter the average wage and the other three-quarters the average, the lower earner would qualify for a homemaker pension top-up of \$1,350.

Who Will Benefit? (Table B)

Table B takes the analysis a step further by showing total C/QPP retirement and homemaker pension benefits for individuals and couples at different earnings levels. We compare three options - the current system (assuming a mature C/QPP in which the YMPE equals the average industrial wage); the Task Force proposal for a homemaker pension; and the National Council of Welfare's recommendation for an expansion of the C/QPP to one and a half times its current earnings replacement capacity (i.e., to replace 37.5 percent rather than the current 25 percent of earnings up to the average wage).

Table B
C/QPP Retirement Pension, by Family
Type, Earnings and Reform Option

Pre-Retirement Earnings	Current ¹	Homemaker Pension ²	Council ³
<u>$\frac{1}{2}$ average (\$11,400)</u>			
1. single person	\$2,700	\$2,700	\$4,050
2. 2-earner couple	2,700	5,400	4,050
3. 1-earner couple	2,700	5,400	4,050
<u>$\frac{2}{3}$ average (\$17,100)</u>			
1. single person	\$4,050	\$4,050	\$6,075
2. 2-earner couple	4,050	5,400	6,075
3. 1-earner couple	4,050	6,750	6,075
<u>average (\$22,400)</u>			
1. single person	\$5,400	5,400	8,100
2. 2-earner couple ($\frac{1}{2}, \frac{1}{2}$)	5,400	5,400	8,100
3. 2-earner couple ($\frac{1}{4}, \frac{3}{4}$)	5,400	6,750	8,100
4. 1-earner couple	5,400	8,100	8,100

1. Existing C/QPP, mature (YMPE = average industrial wage)

2. Task Force proposal

3. National Council of Welfare proposal

Under the current system, C/QPP retirement benefits are related to earnings and are the same for different kinds of family units with the same pre-

retirement earnings. Single pensioners, two-earner couples and one-earner couples who earn half the average wage during their career receive the same C/QPP retirement pension of \$2,700. Those whose lifetime earnings average three-quarters the average wage would get \$4,050, while average lifetime earnings would bring a pension of \$5,400.

Our own proposal would increase the C/QPP retirement pension by 50 percent for all individuals and families at all earnings levels. At half the average wage, single persons (who face a high risk of poverty and are concentrated on the lower rungs of the income ladder), one-earner couples and two-earner couples would receive \$4,050 instead of \$2,700. Family units at three-quarters the average wage would receive a C/QPP retirement pension of \$6,075, as opposed to \$4,050 under the current system. Those who earn the average wage would get \$8,100 instead of \$5,400. The earnings-related character of the C/QPP would continue, but retirement benefits would be substantially improved and everyone would be treated equally. Full-time homemakers would share half the family's C/QPP benefits when they reach 65, giving them a pension cheque of their own.

Under the Task Force proposal, single pensioners would be no better off than under the current system because they would not qualify for the homemaker pension. (This category includes unmarried persons who never had dependents, and widowed or divorced persons from couples that never qualified for a homemaker pension). Most couples shown in Table B would receive larger C/QPP benefits from the homemaker pension than from the current system, though their relative advantage would depend on their pre-retirement earnings and whether they had one earner or two. Three conclusions stand out concerning the homemaker pension:

- . Single persons would be disadvantaged relative to couples;
- . One-earner couples would fare better than two-earner couples;
- . The earnings-related nature of the C/QPP would be thrown into disarray.

We now turn to a detailed analysis of Table B.

(i) single persons versus couples (Table B)

Under the homemaker pension proposal, single pensioners who earned half the average wage would get only half the C/QPP retirement pension of couples with the same pre-retirement earnings. At three-quarters of average earnings, singles would get 75 percent of two-earner couples' pensions and just 60 percent of what one-earner couples would receive.

The situation for those with average earnings is more complicated. Single pensioners would get the same as two-earner families in which each spouse earned half the average wage; since neither spouse would qualify for a homemaker pension, the couple's C/QPP retirement benefit would not improve. However two-earner couples in which one spouse earned one-quarter and the other spouse three-quarters the average wage would receive a 25 percent larger C/QPP pension than under the existing system, while one-earner couples would get 50 percent more. Keep in mind that each of these four family units had the same pre-retirement earnings.

The Task Force proposal to use the homemaker pension to 'top up' the retirement pension of homemakers earning below half the average wage poses a puzzle. What would happen in the case of a low-income couple where each spouse made less than half of average earnings? Giving each a top-up would treat each as a homemaker, which stretches the notion of 'homemaker' pretty far. On the other hand, designating only one spouse as a homemaker (which is the case for all other couples eligible for the homemaker pension) means that the non-homemaker spouse would receive a smaller C/QPP pension than the homemaker spouse paid the same wage. The former option would be more favourable to low-income couples because it would give them a total C/QPP pension of \$5,400 (the same as the one-earner couple with the same earnings), as opposed to \$4,050 if only one spouse got the homemaker pension top-up. The Task Force report is silent on this issue; Table B assumes that each low-wage spouse would receive a homemaker pension top-up.

Either way, the homemaker pension is unfair to low-wage single earners. Single workers earning less than half the average wage would get a

lower C/QPP pension than a homemaker with the same earnings. (Extending the homemaker pension top-up to low wage single workers would remedy this inequity, but then the 'homemaker pension' would amount to a measure for guaranteeing everyone a C/QPP retirement pension floor of half the maximum pension). Single people do not build up C/QPP pension credits when they are not in the paid labor force (e.g., if they are disabled or unemployed); the homemaker who is not in the paid labor force would get a C/QPP homemaker pension.

(ii) one-earner versus two-earner couples (Table B)

The homemaker pension favors one-earner couples over families with two spouses in the work force. (The exception, as noted earlier, is the two-earner couple in which each spouse qualified for a homemaker pension 'top-up'). One-earner couples at three-quarters the average wage would get a 25 percent larger C/QPP pension than two-earner couples with the same average earnings (\$6,750 versus \$5,400).

The effects of the homemaker pension on couples with average earnings are most odd. If each spouse earned one-half the average wage, the combined C/QPP retirement pension (\$5,400) would be the same as it is now since they would not qualify for any homemaker pension. However a two-earner couple in which one spouse earned one-quarter and the other three-quarters the average wage would receive a homemaker pension top-up, bringing their total pension to \$6,750 - 25 percent more than the other two-earner couple with exactly the same earnings. One-earner couples would benefit most; their C/QPP retirement pension would increase to \$8,100 - 50 percent more than the single person and the first two-earner couple, and 20 percent more than the second two-earner couple with the same earnings.

Earnings Replacement (Tables B and C)

Table B also shows that the homemaker pension would distort the link between pre-retirement earnings and retirement benefits, which is an integral aspect of the C/QPP. For example:

- . One and two-earner couples who earned half the average wage (\$11,400) would receive the same C/QPP pension as two-earner couples at three-quarters the average (\$17,100) and single pensioners and two-earner couples (each earned \$11,400) with average earnings (\$22,800).
- . Single pensioners who earned three-quarters the average wage would get a smaller pension than one-earner couples who earned only half the average (i.e., the single person, who earned 50 percent **more** than the couple, would get a 33 percent **lower** retirement benefit).
- . One-earner couples, at three-quarters the average wage, would get a larger pension than two-earner couples where each spouse earned half the average wage, but the same pension as two-earner couples where one spouse earned one-quarter and the other spouse three-quarters the average wage.

Table C gives earnings replacement ratios - i.e., C/QPP retirement benefits as a percentage of gross pre-retirement earnings. Under the current system, C/QPP benefits replace 25 percent of earnings for each family unit at each earnings level shown in the table. The National Council of Welfare's proposed expansion of the C/QPP would raise this ratio to 36 percent for everyone. If the homemaker pension were introduced, earnings replacement ratios would range from 24 percent to 47 percent.

Table C

**C/QPP Retirement Pension as a Percentage of
pre-Retirement Earnings, by Family Type,
Earnings and Reform Option**

Pre-Retirement Earnings	Current ¹	Homemaker Pension ²	Council ³
<u>$\frac{1}{2}$ average (\$11,400)</u>			
1. single person	24%	24%	36%
2. 2-earner couple	24	39	36
3. 1-earner couple	24	47	36
<u>$\frac{3}{4}$ average (\$17,100)</u>			
1. single person	24%	24%	36%
2. 2-earner couple	24	32	36
3. 1-earner couple	24	39	36
<u>average (\$22,800)</u>			
1. single person	24%	24%	36%
2. 2-earner couple ($\frac{1}{2}, \frac{1}{2}$)	24	24	36
3. 2-earner couple ($\frac{1}{4}, \frac{3}{4}$)	24	30	36
4. 1-earner couple	24	36	36

1. Existing C/QPP, mature (YMPE = average industrial wage)
2. Parliamentary Task Force proposal
3. National Council of Welfare proposal

Defenders of the homemaker pension proposal may reject this analysis because it looks at actual earnings and does not include homemakers' deemed earnings. They would argue that, for example, a one-earner couple in which one spouse earned the average wage (\$22,800) should have the homemaker's deemed

earnings (\$11,400) added in, thereby increasing family earnings by 50 percent to \$34,200.

Including homemakers' deemed earnings in this manner would change the middle column of Table C; all the replacement ratios resulting from the homemaker pension would be 24 percent, the same as under the current system - which we consider inadequate. So even if we accept the Task Force's assumption that a full-time homemaker's imputed salary should be \$11,400 and added to actual earnings - and the corollary that homemaker services provided by persons who earn more than half the average wage have no deemed value - then their proposal would not improve the C/QPP's income replacement capacity, whereas our own reform would raise it by a substantial 50 percent.

Women in the Paid Labor Force (Table D)

Another criticism of the homemaker pension proposal is that it has, in a sense, come too late. The traditional role of woman as homemaker is already out of date, and becoming more so with each passing year.

Women's increasing participation in the paid labor force is one of the striking social and economic changes of our time. In the early 'fifties, only one woman aged 15 and older in four was in the labor force; thirty years later, that figure had doubled to one woman in two. In 1971, 53 percent of women between the ages of 20 and 64 worked for wages and therefore contributed to the Canada Pension Plan; by 1981, that percentage had increased to 63 percent (the comparable figures for men are 97 percent and 91 percent). By the year 2000, as many as seven women in ten aged 20 to 64 will be in the paid labor force, and many of the remainder will enter or re-enter the work force after a short period in the home. Moreover the labor force participation of the younger generation of women is higher; 78 percent of women aged 20 to 24 and 72 percent of those 25 to 29 contribute to the CPP.

The majority of women, including those with pre-school children and single mothers, are in the labor force. Most wives and mothers who work for pay have full-time jobs. Table D gives the latest labor force statistics, for March 1984.¹⁵

Table D

**Wives and Single Mothers in the
Paid Labor Force, March 1984**

Wives, Husband Employed

	<u>participation rate</u>	<u>full-time</u>	<u>employed</u> <u>part-time</u>
with children	59.8%	67.2%	32.8%
with pre-schoolers	54.8	66.1	33.9
under 3	53.7	66.6	33.4
3 to 5	56.4	65.4	34.6
with children 6 to 15	65.0	68.3	31.7
no children	63.6	77.7	22.3

Single Mothers

with children	60.9	81.4	18.6
with pre-schoolers	51.8	78.8	21.2
under 3	45.6	73.7	26.3
3 to 5	57.3	81.8	18.2
with children 6 to 15	66.4	83.2	16.8

Six in ten single mothers and wives (whose husbands work) are in the labor force. As one would expect, the participation rate of women with older children is higher than those with pre-schoolers, suggesting that many women enter or re-enter the work force once their children are old enough to go to daycare or school. (There is also a trend among younger women to continue working even when they have their children).

Eight in ten single mothers who are employed and seven in ten wives in the paid labor force have full-time jobs. Most wives without children are also in the paid labor force; the participation rate is 73 percent for those under age 55, and 80 percent of those under 55 with jobs work full-time.

The homemaker pension would not be restricted to full-time homemakers; it also would supplement the regular C/QPP retirement pension of low-wage homemakers so that their total pension was based on half of average earnings. There is no question that this feature would overwhelmingly benefit women, since they continue to earn so much less than men. In fact, the Task Force estimated that more low-wage women would qualify for homemaker pension benefits (an estimated 1.7 million) than full-time homemakers (1.5 million).¹⁶ Even though the population of full-time homemakers likely will continue to decline, then, the homemaker pension would help women who enter the labor force but work only part-time, or full-time for low wages.

On the other hand, six in ten women between the ages of 20 and 64 who contribute to the Canada Pension Plan earn **more** than half the average wage and so would not qualify for a homemaker pension. In any case, pension reformers who reject the Task Force proposal for a pension are not saying that homemakers should be denied better retirement income: It is just that they think there is a better way of achieving this objective.

Single Parents (Table E)

Canada's half a million single mothers - who outnumber single fathers by six to one - need better pensions. Their average income in 1981 was \$16,680 - less than half the \$34,261 average for married couples with children. Half

the one-parent families led by women live below the poverty line; many are welfare recipients who struggle to raise their children on a very low income. More single mothers work in the paid labor force than in the home, but few belong to private pension plans and many work for low or modest wages.

The Task Force proposal would provide fully subsidized homemaker pension benefits to single parents who are full-time homemakers (including welfare mothers) or who earn less than half the average wage. However a homemaker pension is not the only answer to the retirement income needs of single parents. The Council's pension reform package - an expanded C/QPP instead of a homemaker pension, credit-splitting, better survivor benefits, a 25 percent dropout provision, an improved Guaranteed Income Supplement - also would provide better retirement income for single parents.

Take, for example, a divorced woman who married at 18, remained in the home raising children for 12 years, then got divorced and worked in the paid labor force until she retired. Table E shows that our own proposals would provide such a single mother a substantially **better** C/QPP pension than would the Task Force proposal for a homemaker pension.

Table E
C/QPP Retirement Pension, Single
Mothers, by Earnings and Reform Option

<u>Pre-retirement</u> <u>Earnings</u>	<u>Current</u>	<u>Homemaker</u> <u>Pension</u>	<u>Council</u>
½ average (\$11,400)	\$2,700	\$3,038	\$4,050
¾ average (\$17,100)	3,713	4,050	5,569
average (\$22,800)	4,725	5,063	7,088

The homemaker pension proposal would appear to exempt single parents who work full-time in the home from paying C/QPP contributions.¹⁷ However not all single parents are poor, by any means. A wealthy widow who stayed home raising children would receive a fully-subsidized homemaker pension. A low-income widow with children, who cannot afford to remain at home and earns half the average wage, would get the same C/QPP pension but would have to pay the full amount of her contributions.

This inequity is all the more galling when we take into account the fact that the well-off widow can look forward to a comfortable retirement income derived mainly from her deceased spouse's private pension and retirement savings, whereas the low-wage widow's retirement income will come mainly from public sources (Old Age Security, Guaranteed Income Supplement and the C/QPP). Why should an affluent single parent who worked in the home enjoy a fully subsidized public pension (the homemaker pension) that is not available to a low-income widow who worked in the paid labor force and also raised her children alone?

Married versus Divorced/Widowed Homemakers

A married homemaker whose children leave home or are over age 18 would continue to be covered by the homemaker pension because she is considered to be providing homemaker services for her husband. However, if her husband died or the couple divorced, she no longer would qualify for a homemaker pension.

Homemakers with Housekeepers

A homemaker who can afford to hire a housekeeper still would qualify for a homemaker pension. If she were a single parent, she would not have to pay for her homemaker pension, even if she were affluent.

The housekeeper or domestic likely earns less than half the average wage, so she would end up with a smaller C/QPP retirement pension than her well-off employer (unless the domestic qualifies as a homemaker herself - i.e., has a husband or children). To add insult to inequity, the housekeeper's C/QPP contributions would help pay for the homemaker pension of single parents who are

full-time homemakers - which would include her employer if the latter were a single parent with children or a disabled relative living in the home.

Surviving Spouses (Table F)

The homemaker pension would give surviving spouses from one-earner couples larger C/QPP retirement benefits than spouses from two-earner couples with the same pre-retirement earnings. For instance, a widow from a one-earner couple would get a 50 percent larger retirement pension than a widow from a two-earner couple (each spouse earned half the average wage) with exactly the same earnings. The Task Force scheme makes even less sense in view of the fact that the majority of couples have two earners, and an even larger proportion will in future.¹⁸

Table F
C/QPP Retirement Pension, Surviving
Spouses, by Family Type, Earnings and Reform Option

Couple's Pre-Retirement Earnings	Current ¹	Homemaker Pension ²	Council ³
<u>½ average (\$11,400)</u>			
1. 2-earner couple	\$2,758	\$3,510	\$3,240
2. 1-earner couple	1,620	3,510	3,240
<u>¾ average (\$17,100)</u>			
1. 2-earner couple	\$2,970	\$3,510	\$4,860
2. 1-earner couple	2,430	4,388	4,860
<u>average (\$22,800)</u>			
1. 2-earner couple (½, ½)	\$4,320	\$3,510	\$6,480
2. 2-earner couple (¼, ¾)	3,780	4,388	6,480
3. 1-earner couple	3,240	5,265	6,480

1. Existing C/QPP, mature (YMPE = average industrial wage)

2. Parliamentary Task Force proposal

3. National Council of Welfare proposal

The National Council of Welfare's pension reforms, by contrast, treat survivors from one and two-earner couples equally and, almost without exception, would provide substantially **better** C/QPP pensions for widows - including those who worked all their lives as homemakers.

Paying for Better Pensions (Table G)

Table G compares the contributions that would be required for single persons and couples earning the average wage under the current system, the homemaker pension and the National Council of Welfare's reforms. We also show the C/QPP retirement benefits available from the three options.

If the current C/QPP had already matured (i.e., the YMPE equalled the average industrial wage), single persons and one-earner couples at the average wage would pay \$369 this year in return for a C/QPP retirement pension of \$5,400 (in 1984 dollars); their employers contribute an equal amount on their behalf. Two-earner couples pay somewhat less (\$245) for the same pension benefit because contributors do not pay on earnings below the year's basic exemption (\$2,300); each spouse in the two-earner couple benefits from this provision, as opposed to only one person in the other family units.¹⁹

The Task Force recommended a small increase in the contribution rate (from 3.6 percent to 3.9 percent; employers and employees each would pay half this amount) to finance the homemaker pension. Single persons and two-earner couples in which each spouse earned half the average wage would help pay for the homemaker pension, even though they would not be eligible for it. The other two-earner couple (one spouse earned one-quarter, the other three-quarters the average wage) would receive a top-up from the homemaker pension, raising their retirement pension from \$5,400 to \$6,750 (a 25 percent increase); their total contribution would come to \$466 (\$289 for the larger earner's regular pension, \$66 for the smaller earner's regular pension, and \$111 for the homemaker pension).

Table G

C/QPP Contributions and Benefits, Family Units
With Average Earnings, by Reform Option

	<u>Current</u>		<u>Homemaker Pension</u>		<u>Council</u>	
	<u>contribution</u>	<u>pension</u>	<u>contribution</u>	<u>pension</u>	<u>contribution</u>	<u>pension</u>
Single person	\$369	\$5,400	\$400	\$5,400	\$533	\$8,100
2-earner couple ($\frac{1}{2}, \frac{1}{2}$)	245	5,400	355	5,400	473	8,100
2-earner couple ($\frac{1}{4}, \frac{3}{4}$)	245	5,400	466	6,750	473	8,100
1-earner couple	369	5,400	759	8,100	533	8,100

One-earner couples with average earnings would enjoy a substantial 50 percent boost in their C/QPP retirement benefit, thanks to the homemaker pension. However their required contribution would double. They would pay \$400 for the regular C/QPP pension and another \$359 for the homemaker pension. The added burden could be particularly onerous if the couple's earner also contributed to a private pension plan.

The comparison between the homemaker pension and National Council of Welfare proposals is instructive. Single persons and two-earner couples (each spouse earning half the average wage) would pay more under our approach, but they would enjoy a 50 percent increase in their C/QPP retirement benefit over what they now receive (and would from the Task Force). Two-earner couples (one spouse at one-quarter, the other three-quarters the average wage) would pay a few dollars more under the Council proposal than the homemaker pension, but in return they would get a much better pension (\$8,100 versus \$6,750). One-earner couples would get the same retirement pension from the Council as the Task Force proposals, but would pay much less (\$533 as opposed to \$759) under our approach.

The Dependency Argument

Homemaker pension proponents claim their proposal would give homemakers a C/QPP pension in their own right and so would reduce their dependence on their spouse. However this argument ignores the fact that the proposal to split C/QPP credits earned by both spouses (upon divorce, the death of one spouse or when the younger spouse reaches 65) would include the homemaker pension - i.e., the non-homemaker spouse would share 'her' homemaker pension, just as the homemaker would share 'his' retirement pension. Indeed, some might argue that the fact that the non-homemaker spouse would pay the homemaker's pension contribution implies a dependency relationship of its own.

Credit-splitting is based on the premise that marriage is an economic partnership of equals. The C/QPP retirement benefits that a homemaker would receive under our proposal for an expanded C/QPP would make her no more or less dependent than would the homemaker pension. With or without a homemaker

pension, then, credit-splitting will ensure that a homemaker receives a pension cheque of her own and so is not dependent on her spouse for her retirement income.

The Adequacy of Pension Reform (Tables H to O)

The acid test of any proposal for pension reform is the improvement it would make in the income of retired Canadians. The following series of tables show public retirement income available to single pensioners, single parents, one-earner and two-earner couples, and surviving spouses. We show three levels of pre-retirement earnings (half, three-quarters and the full average industrial wage) and compare three options - the current 'mature' C/QPP (i.e., the YMPE equals the average industrial wage), the Task Force proposals (prominent among them the homemaker pension), and the National Council of Welfare's package of pension reforms (based on a 50 percent increase in the earnings-replacement capacity of the C/QPP).²⁰

The tables look more complicated than they really are. Take, for example, Table H which is divided into three columns. The left-hand column shows a single pensioner whose lifetime average earnings amount to half the average wage (\$11,400 in 1984 terms). Under option A (the current system) the pensioner would receive \$3,220 from Old Age Security, \$2,488 in Guaranteed Income Supplement benefits and a C/QPP retirement pension of \$2,700. Total income from public sources comes to \$8,408, which is \$1,492 below the estimated low-income line for one person living in a city of 500,000 or more (\$9,900 in 1984) and 86 percent of the person's net pre-retirement earnings (i.e., earnings less C/QPP contributions, unemployment insurance premiums and federal and provincial income tax). Option B shows what the pensioner would receive if the Task Force proposals were in effect, and Option C illustrates the impact of the National Council of Welfare's proposals.

Table H
Public Pension Income, Single Persons,
by Earnings and Option, 1984

Pensioner's Pre-Retirement Earnings

Retirement Income	$\frac{1}{3}$ average (\$11,400)			$\frac{2}{3}$ average (\$17,100)			average (\$22,800)		
	A	B	C	A	B	C	A	B	C
OAS	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220
GIS	2,488	1,888	2,413	1,813	1,213	1,401	1,138	538	388
C/QPP	2,700	2,700	4,050	4,050	4,050	6,075	5,400	5,400	8,100
Total	8,408	7,808	9,683	9,083	8,483	10,696	9,758	9,158	11,708
Poverty Gap Replacement Ratio	-1,492 86%	-2,092 80%	- 217 100%	- 817 66%	-1,417 62%	796 78%	- 142 55%	- 742 52%	1,808 67%

Option

- A. Current
B. Task Force (homemaker pension)
C. National Council of Welfare

(i) single pensioners (Table H)

Table H looks at single persons who would not be eligible for a homemaker pension. The Task Force (column B) would not improve their C/QPP income. They actually would receive less from the Guaranteed Income Supplement than under the existing system (column A) because the Task Force's proposal for a monthly increase of \$102 would be targetted to the lowest-income single elderly; none of the pensioners shown on Table H would qualify for this increase because their C/QPP income is too high. On the other hand, the \$50 monthly boost in the GIS single rate, announced in the February 1984 Budget, would be added to the regular GIS and so would benefit pensioners shown on Table H (column A).

The National Council of Welfare's pension reforms (column C) would raise C/QPP retirement income by 50 percent. Single pensioners who earned half the average wage would be lifted to within a few hundred dollars of the low-income line; an additional increase in GIS benefits could easily close the remaining gap. Single persons who earned the average wage would enjoy a substantial boost in their replacement ratio (i.e., their retirement income as a proportion of their net pre-retirement earnings).

(ii) single parents (Table I)

Table I shows what the homemaker pension and National Council of Welfare proposals would do for single mothers.²¹ In our example, we assume the single mother is a woman who married at age 18, worked in the home raising her children for 12 years until her marriage broke up, then spent the rest of her working life in the paid labor force.

Single mothers at each earnings level actually would be worse off under the Task Force proposals than the current system. Their homemaker pension would give them a larger C/QPP retirement benefit, but this income would be more than offset by their lower GIS benefit. The National Council of Welfare reform package would provide the single mothers in our example a much better retirement income than either the current system or the Task Force scheme.

Table I
**Public Pension Income, Single Parents,
by Earnings and Option*, 1984**

Single Parent's Pre-Retirement Earnings

Retirement Income	$\frac{1}{2}$ average (\$11,400)			$\frac{3}{4}$ average (\$17,100)			average (\$22,800)		
	A	B	C	A	B	C	A	B	C
OAS	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220
GIS	2,488	1,719	2,413	1,982	1,213	1,654	1,476	707	894
C/QPP	2,700	3,038	4,050	3,713	4,050	5,569	4,725	5,063	7,088
Total	8,408	7,977	9,683	8,915	8,483	10,443	9,421	8,990	11,202
Poverty Gap Replacement Ratio	- 1,492	- 1,923	- 217	- 985	- 1,417	543	- 479	- 910	1,302
	86%	82%	99%	65%	62%	76%	54%	51%	64%

* Option

A. Current system

B. Task Force (homemaker pension)

C. National Council of Welfare

(iii) two-earner couples (Table J)

The homemaker pension (Option B) would increase the retirement income of two-earner couples at half and three-quarters the average wage. Couples in which one spouse earned one-quarter and the other three-quarters the average also would be further ahead, but those in which each spouse earned half the average wage would get the same as they would under the present system.

The Council's proposals (Option C) would improve the retirement income of all two-earner couples at all earnings levels. Couples at half the average wage would get slightly more from the homemaker pension, it is true, but all other couples would get more from our reforms.

(iv) one-earner couples (Table K)

Even though the homemaker pension tends to favor one-earner couples, the National Council of Welfare's proposals also would give them better public retirement income. One-earner couples at half the average wage would get more from the Task Force because each would receive a homemaker pension top-up. One-earner couples at three-quarters the average wage would get a few hundred dollars more from the Task Force proposals.

(v) surviving spouses (Tables L and M)

Table L shows the public retirement income for surviving spouses of two-earner couples. We assume the survivor had the lower earnings; C/QPP income includes survivor benefits. Unlike the earlier tables, the replacement ratios in Tables L and M indicate the survivor's retirement benefits as a percentage of the couple's retirement income.

Table J
Public Pension Income, Two-Earner Couples,
by Earnings and Option, 1984

Couple's Pre-Retirement Earnings

Retirement Income	$\frac{1}{2}$ average ($\frac{1}{2}, \frac{1}{2}$) (\$11,400)			$\frac{3}{4}$ average ($\frac{1}{4}, \frac{1}{4}$) (\$17,100)			average ($\frac{1}{2}, \frac{1}{2}$) (\$22,800)			average ($\frac{1}{4}, \frac{3}{4}$) (\$22,800)		
	<u>A</u>	<u>B</u>	<u>C</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>A</u>	<u>B</u>	<u>C</u>
OAS	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440
GIS	3,644	2,294	2,969	2,969	2,294	1,957	2,294	2,294	944	2,294	1,619	944
C/QPP	2,700	5,400	4,050	4,050	5,400	6,075	5,400	5,400	8,100	5,400	6,750	8,100
Total	12,784	14,134	13,459	13,459	14,134	14,472	14,134	14,134	15,484	14,134	14,809	15,484
Poverty Gap	-279	1,071	396	396	1,071	1,409	1,071	1,071	2,421	1,071	1,746	2,421
Replacement Ratio	116%	128%	122%	88%	93%	95%	73%	73%	80%	74%	77%	81%

Option

- A. Current system
- B. Task Force (homemaker pension)
- C. National Council of Welfare

Table K
Public Pension Income, One-Earner
Couples, by Earnings and Option, 1984

Couple's Pre-Retirement Earnings

Retirement Income	$\frac{1}{2}$ average (\$11,400)			$\frac{3}{4}$ average (\$17,100)			average (\$22,800)		
	A	B	C	A	B	C	A	B	C
OAS	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440	\$6,440
GIS	3,644	2,294	2,969	2,969	1,619	1,957	2,294	944	944
C/QPP	2,700	5,400	4,050	4,050	6,750	6,075	5,400	8,100	8,100
Total	12,784	14,134	13,459	13,459	14,809	14,472	14,134	15,484	15,484
Poverty Gap	- 279	1,071	396	396	1,746	1,409	1,071	2,421	2,421
Replacement Ratio	118%	131%	125%	91%	100%	98%	75%	82%	82%

Option

- A. Current System
- B. Task Force (homemaker pension)
- C. National Council of Welfare

Table L

**Public Pension Income, Surviving Spouses,
Two-Earner Couples, by Earnings and Option, 1984**

Couple's Pre-Retirement Earnings

Retirement Income	$\frac{1}{2}$ average ($\frac{1}{2}, \frac{1}{2}$) (\$11,400)			$\frac{3}{4}$ average ($\frac{1}{4}, \frac{1}{4}$) (\$17,100)			average ($\frac{1}{2}, \frac{1}{2}$) (\$22,800)			average ($\frac{1}{4}, \frac{3}{4}$) (\$22,800)		
	A	B	C	A	B	C	A	B	C	A	B	C
OAS	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220
GIS	2,160	1,483	2,818	2,353	1,483	2,008	1,678	1,483	1,198	1,948	1,045	1,198
C/QPP	2,758	3,510	3,240	2,970	3,510	4,860	4,320	3,510	6,480	3,780	4,388	6,480
Total	8,138	8,213	9,279	8,543	8,213	10,088	9,218	8,213	10,898	8,948	8,653	10,898
Poverty Gap	-1,762	-1,687	- 622	-1,357	-1,687	188	- 682	-1,687	998	- 952	-1,247	998
Replacement Ratio*	64%	58%	69%	63%	58%	70%	65%	58%	70%	63%	58%	70%

Option

- A. Current system
B. Task Force (homemaker pension)
C. National Council of Welfare

* As percentage of couple's retirement income.

Table M

**Public Pension Income, Surviving Spouses,
One-Earner Couples, by Earnings and Option, 1984**

Couple's Pre-Retirement Earnings

Retirement Income	$\frac{1}{2}$ average (\$11,400)			$\frac{3}{4}$ average (\$17,100)			average (\$22,800)		
	A	B	C	A	B	C	A	B	C
OAS	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220	\$3,220
GIS	3,028	1,483	2,818	2,623	1,045	2,008	2,218	606	1,198
C/QPP	1,620	3,510	3,240	2,430	4,388	4,860	3,240	5,265	6,480
Total	7,868	8,213	9,279	8,273	8,653	10,088	8,678	9,091	10,898
Poverty Gap	-2,032	-1,687	- 622	-1,627	-1,247	188	-1,222	- 809	998
Replacement Ratio	62%	58%	69%	61%	58%	70%	61%	59%	70%

Option

- A. Current system
- B. Task Force (homemaker pension)
- C. National Council of Welfare

The Task Force proposals - a homemaker pension, credit-splitting and a survivor benefit equal to 30 percent of the deceased spouse's C/QPP retirement pension after credit-splitting - would leave all the survivors significantly below the poverty line. By contrast, the National Council of Welfare's pension reforms - an expanded C/QPP, credit-splitting and a survivor benefit equal to 60 percent of the deceased spouse's retirement pension after credit-splitting - would substantially improve widows' retirement income. Survivors would receive 70 percent of the couple's retirement income before the spouse's death. As we noted earlier, a relatively modest additional increase in the Guaranteed Income Supplement for single persons could close the remaining poverty gap for low-income survivors.

Table M demonstrates the superiority of our reforms over the Task Force proposals as they affect widows from one-earner couples. A comparison of Tables L and M shows that the Council's proposals would treat survivors at the same earnings level equally, whereas the homemaker pension benefits some more than others.

For example, our approach would produce a total public retirement income of \$10,898 for surviving spouses from all couples with average pre-retirement earnings (\$22,800). The Task Force, on the other hand, would give \$9,091 to a survivor from a one-earner couple at the average wage; \$8,653 to a survivor from a two-earner couple (in which one spouse earned one-quarter and the other three-quarters the average wage); and \$8,213 to the widow from a couple in which each spouse earned half the average wage.

(vi) the bottom line (Tables N and O)

Tables N and O summarize the previous tables. Table N shows total retirement income from public sources (Old Age Security, Guaranteed Income Supplement and the Canada/Quebec Pension Plan) for single persons, single parents (who spent one-quarter their working life raising children in the home, then divorced and worked until retirement in the paid labor force), and couples with one and two earners. Table O does the same thing for surviving spouses.

Table N

**Public Pension Income, by Family Type,
Earnings and Reform Option**

Pre-Retirement Earnings	<u>Retirement Income</u>		
	Current	Homemaker Pension	Council
<u>$\frac{1}{2}$ average (\$11,400)</u>			
1. single person	\$ 8,048	\$ 7,808	\$ 9,683
2. single parent	8,048	7,977	9,683
3. 2-earner couple	12,784	14,134	13,459
4. 1-earner couple	12,784	14,134	13,459
<u>$\frac{3}{4}$ average (\$17,000)</u>			
1. single person	9,083	8,483	10,696
2. single parent	8,915	8,483	10,443
3. 2-earner couple	13,459	14,134	14,472
4. 1-earner couple	13,459	14,809	14,472
<u>average (\$22,800)</u>			
1. single person	9,758	9,158	11,708
2. single parent	9,421	8,990	11,202
3. 2-earner couple ($\frac{1}{2}, \frac{1}{2}$)	14,134	14,134	15,484
4. 2-earner couple ($\frac{1}{4}, \frac{3}{4}$)	14,134	14,809	15,484
5. 1-earner couple	14,134	15,484	15,484

Low-income lines (city of 500,000 or more)

- 1. single person - \$ 9,900
- 2. couple - \$13,063

Table 0

**Public Pension Income, Surviving Spouses,
By Family Type, Earnings and Reform Option, 1984**

Pre-Retirement Earnings	<u>Widow's Retirement Income</u>		
	Current	Homemaker Pension	Council
<u>$\frac{1}{2}$ average (\$11,400)</u>			
1. 1-earner couple	\$7,868	\$8,213	\$9,279
2. 2-earner couple	8,138	8,213	9,279
<u>$\frac{3}{4}$ average (\$17,100)</u>			
1. 1-earner couple	8,273	8,653	10,088
2. 2-earner couple	8,543	8,213	10,088
<u>average (\$22,800)</u>			
1. 1-earner couple	8,678	9,091	10,898
2. 2-earner couple ($\frac{1}{2}, \frac{1}{2}$)	9,218	8,213	10,898
3. 2-earner couple ($\frac{1}{4}, \frac{3}{4}$)	8,948	8,653	10,898

Low-income line (city of 500,000 or more)

\$9,900

The Task Force proposals, which centre on the homemaker pension, would produce winners and losers. Single persons and single parents in the example we have chosen would end up with a lower retirement income than under the existing system. Most couples would get more than they do now; however, two-earner couples in which each spouse made half the average wage would be no further ahead. One-earner couples would enjoy larger pension increases than two-earner couples; the exception is two-earner couples at half the average wage, who would get the same as one-earner couples with the same earnings.

Everyone would benefit from the National Council of Welfare's pension reforms. Our proposal would make a marked improvement in retirement income over the existing system in every case. Families and single persons with the same pre-retirement earnings would receive the same retirement pension from the Canada/Quebec Pension Plan, whereas the homemaker pension would break the link between earnings and pensions.

Single persons and single parents would fare much better under our proposals than those put forward by the Task Force. The picture for couples is mixed, though both the Task Force and National Council of Welfare reforms would raise couples above the poverty line. Couples at half the average wage and one-earner couples with average earnings would get more from the homemaker pension than our proposals. One-earner couples with average earnings would get the same from both sets of proposals. The other couples shown in Table N would be better off under the Council's reforms.

Table O looks at widows. In the case of two-earner couples, we assume the surviving spouse had the lower earnings. The survivor from the one-earner couple was the homemaker.

Widows would get a better deal from the Council's reforms than from the Task Force's homemaker pension. Our approach would treat survivors from one and two-earner couples with the same pre-retirement earnings equally. The homemaker pension would favor career homemakers over widows who worked in the paid labor force.

CONCLUSION

The homemaker pension would improve the Canada/Quebec Pension Plan retirement income of one-earner couples, single parents who work in the home or for low wages, and two-earner couples in which one or both spouses earn less than half the average wage. However, the homemaker pension proposal advocated by the Parliamentary Task Force would result in a number of inequities which were discussed in the previous pages. For example:

- . Single persons and most two-earner couples would help pay for the homemaker pension, but would not qualify for it when they retire. They would not see any increase in their C/QPP pension, which in its present form does not meet their retirement income needs.
- . Homemaker services would be valued in an arbitrary manner:
 - full-time homemakers' services would be valued at half the average wage (\$11,400) and their homemaker pension based on this amount
 - homemakers who work in the paid labor force but earn less than half the average wage would have their homemaker services valued at the difference between their actual earnings and half the average wage (e.g., if they earned \$8,000, their homemaker services would be 'worth' \$3,400)
 - homemaker services provided by single parents and wives who earned half the average wage (\$11,400) or more would receive no deemed value and would not qualify for a homemaker pension.
- . A single pensioner who earned less than half the average wage would receive a lower C/QPP pension than a spouse or single parent with exactly the same earnings.
- . A single pensioner whose pre-retirement earning were half the average wage would get only half the C/QPP retirement pension of a couple with exactly the same earnings.
- . A single pensioner who earned the average wage would receive two-thirds the C/QPP retirement income of a one-earner couple whose breadwinner earned the same amount.
- . A couple in which each spouse earned half the average wage would retire with a 25 percent smaller C/QPP pension than a couple with the same combined earnings, except that one spouse earned one-quarter and the other three-quarters the average wage.

- . A one-earner couple with average earnings would get a 50 percent larger C/QPP pension than a two-earner couple with the same earnings (where each spouse earned half the average).
- . A one-earner couple at half the average wage would receive the same C/QPP pension as a two-earner couple at three-quarters the average and a single pensioner and two-earner couple (each spouse having earned half the average wage) with average earnings.
- . A millionaire's wife with no earnings of her own could hire a full-time single housekeeper and still qualify for a homemaker pension that likely would be larger than her domestic's C/QPP retirement pension.
- . An affluent widow who worked in the home raising children would receive a fully subsidized homemaker pension. A low-income widow with children, who could not afford to remain at home and who earned just half the average wage, would get the same C/QPP pension but would have to pay her full contribution. The poor widow's C/QPP contribution would help pay for the wealthy homemaker's subsidized pension.
- . A widow from a two-earner couple in which each spouse earned half the average wage would get a 50 percent smaller C/QPP retirement pension than a widow who was a full-time homemaker in a couple with exactly the same pre-retirement earnings.
- . One-earner couples with average earnings would receive a 50 percent larger C/QPP retirement pension, thanks to the homemaker pension, but their required pension contributions would increase by 100 percent.

The National Council of Welfare recommends a 50 percent expansion of the C/QPP to replace 37.5 percent of earnings up to the average wage, as opposed to the present 25 percent. Our reform package would improve the retirement income of **all** Canadians, including single persons and two-earner couples who would not benefit from the homemaker pension.

Homemakers would receive substantially more retirement income than under the present system. They would get a monthly C/QPP pension cheque of their own in the same amount as their husband. Whether they worked in the home

or the labor force, widows would get more from our pension reforms than they would from the homemaker pension and other proposals of the Parliamentary Task Force.

The best way to provide better pensions for homemakers is to provide better pensions for everyone.

FOOTNOTES

1. National Action Committee on the Status of Women, Pension Reform: What Women Want (Toronto: 1983). Louise Dulude, Pension Reform With Women in Mind (Ottawa: Canadian Advisory Council on the Status of Women, 1981). The National Association of Women and the Law, the National Council of Women of Canada and the Y.W.C.A. of Metropolitan Toronto also have advocated a homemaker pension.
2. Canada Pension Plan Advisory Committee. More Effective Participation of Homemakers in the Canada Pension Plan: Majority Report (Ottawa: 1983).
3. Parliamentary Task Force on Pension Reform. Report (Ottawa: House of Commons, 1983).
4. Government of Canada. Better Pensions for Canadians (Ottawa: Minister of Supply and Services Canada, 1982).
5. Canadian Labour Congress. The CLC Proposal for Pension Reform (Ottawa: 1982). Equality of Opportunity and Treatment of Women Workers Committee of the Canadian Labour Congress. Submission to the Parliamentary Task Force on Pension Reform (Ottawa: 1983). The Honourable Larry Grossman. Ontario Proposals for Pension Reform, (Toronto: Treasurer of Ontario, 1984).
6. Social Planning Council of Metropolitan Toronto. Good Pensions for Canada (Toronto: July 1983). National Anti-Poverty Organization. Pensions and the Poor (Ottawa: 1983). Social Planning Council of Winnipeg. Pension Reform for Canadians (Winnipeg: 1983).
7. We do not deal in this report with the Task Force's recommended phase-in of the homemaker pension. The homemaker pension would be introduced so as to benefit persons who have reached age 65 since 1966. Benefits would be phased in for those who have retired since 1966 by treating each year from 1966 to the present as one in which everyone (whether a homemaker or not) had deemed earnings for C/QPP purposes of at least 1/3 of the YMPE. Thus all Canadians who turned 65 since 1976 would get at least \$129.00 a month. This amount would decline gradually to zero for those who reach 65 in 1966 or earlier. This system would be phased out as the homemaker pension matured.
8. Parliamentary Task Force on Pension Reform. Report, p.25.
9. If the C/QPP were mature (i.e., the YMPE equalled the average industrial wage), the maximum retirement pension in 1984 would be \$450 a month. The maximum homemaker pension, based on deemed earnings of \$11,400 (half the average wage), would be \$225 a month.
10. Report, p.25.

11. More Effective Participation of Homemakers in the Canada Pension Plan, p.5.
12. Report, p. 25.
13. More Effective Participation of Homemakers, p. 6.
14. We assume the same example as in the previous sentence - i.e., the woman earns more than half the average wage and so does not qualify for the homemaker pension.
15. Based on data in Statistics Canada, The Labour Force, March 1984 (Ottawa: Minister of Supply and Services Canada, 1984), Table 12A.
16. Cited by Louise Dulude in a letter to the editor, "Pension reform stories seem as anti-housewife", Globe and Mail (Toronto: January 14, 1984).
17. The Task Force report is ambiguous on this matter. At one point, it says that "Subsidies should be reduced gradually in relation to family income". A few sentences later, the report states that "in the case of single parents...no additional contributions for a homemaker pension would be required" (p. 26).
18. According to the latest statistics (1981), there were 4,029,000 Canadian couples in which income came from one or both spouses. Couples in which both spouses reported income accounted for 3,058,000 or 76 percent of the total. In most cases employment earnings are the major source of income, so we can safely assume that both spouses work in the paid labor force in the majority of couples. Table D, using different data, corroborates this conclusion.
19. Under the current C/QPP, an employee's maximum contribution is \$338.40 (1.8 percent of the difference between the YMPE of \$20,800 and the YBE of \$2,000). If the YMPE already equalled the average industrial wage, a worker's maximum contribution would be \$369.00 (1.8 percent of the difference between \$22,800 and \$2,300).
20. The current system assumes a mature C/QPP (the YMPE equals the average industrial wage), and that the proposed \$50 monthly increase in the GIS single rate (\$25 in July, another \$25 in December) was in effect for the whole of 1984. The Task Force proposals relevant to these tables are: a homemaker pension, credit-splitting, a 30 percent survivor benefit, and a special GIS top-up of \$102 a month for the single aged (the top-up plus the existing GIS benefit would be reduced by 100 percent of non-OAS income). The National Council of Welfare proposals are: an expanded C/QPP (to replace 37.5 percent of earnings up to the average industrial wage), credit-splitting, a 60 percent survivor benefit and an additional \$50 a month increase in the GIS single rate (i.e., \$50 more than the \$50 increase proposed in the February 1984 Budget).

21. The Task Force also recommended that a pro-rated survivor benefit be paid to a divorced spouse. The benefit would be 30 percent of the retirement pension (after credit-splitting) that the deceased contributor would have received based only on earnings during the course of the marriage. If we assumed that the single mother's ex-spouse were dead, then the pro-rated survivor benefit proposal would increase her total income marginally as follows: from \$7,977 to \$8,137 for the single mother at half the average wage; from \$8,483 to \$8,644 at three-quarters average earnings; and from \$8,990 to \$9,150 for the woman with average lifetime earnings. Even with the pro-rated survivor benefit, then, the single mother would be worse off than under the current system and would receive substantially less than under the Council's reforms.

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NATIONAL COUNCIL OF WELFARE

The National Council of Welfare was established by the Government Organization Act, 1969 as a citizens' advisory body to the Minister of National Health and Welfare. Its mandate is to advise the Minister on matters pertaining to welfare.

The Council consists of 21 members, drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council includes past and present welfare recipients, public housing tenants and other low-income citizens, as well as lawyers, professors, social workers and others involved in voluntary service associations, private welfare agencies, and social work education.

Reports by the National Council of Welfare have dealt with a wide range of issues on poverty and social policy in Canada, including: income security, medicare, poverty lines and poverty statistics, pension reform, the aged, taxation, the working poor, children in poverty, community economic development, women and poverty, employment policy, single-parent families, social services, nutrition, community organizing, child welfare, poor people's groups, legal aid/legal services, low-income consumers, and poverty coverage in the press.

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